

# A home can be far more than a roof over your head

**T**HERE are two sides to the interest-rate coin. There are those who find immense relief in lower interest rates and there are those it affects adversely. I receive many calls for assistance from elderly members of society who have fallen on difficult times.

Either they are living longer than their anticipated retirement years — and have begun to outlive their capital — or inflation and economic circumstances have eroded their carefully thought-out plans, and they find themselves in financial difficulties.

We can describe these people as being asset rich but cash poor. People of this generation may, for example, own their homes bond-free but not come out in terms of living costs. For them there is an option available that many people are unaware of.

These homes have good solid foundations — literally and figuratively. They have been cared for and loved, renovated and improved. They hold



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many happy memories, and sometimes generations of the same family have passed through the doors.

What these people can do is access some of the capital they created in their homes, while at the same time continuing to cherish their fond memories without having to move or relinquish their lovely homes.

One can free up this equity by taking a loan against your home. However, the debt isn't normally repayable until your death. This allows pensioners to

enhance their retirement income.

There are, however, certain requirements and criteria that need to be met, as with other financial products or insurance. Call it the underwriting.

For example, applicants need to be 65 or older. The property must be bond-free and it may not be used for business purposes. There are a few other requirements. The home or property is valued by a professional and independent valuator, and a value is assigned to it.

The applicant then has the option of borrowing a percentage of the value assigned to the home by the valuer.

The loan amount available will be determined by the age of the applicant relative to the value of the home. It can be taken as a lump sum or as five equal annual instalments.

The beauty of this system is that the home owners still remain the registered home owners, do not need to repay the borrowed money, or the interest on it, during the rest of their lives, unless a

repayment event is triggered.

The funds that senior citizens can borrow on the value of their homes allow for a stress-free and enhanced lifestyle for themselves. Once approval has been given, the most important obligations on the side of the home owner are twofold:

- Maintain the property; and
- Keep up the house owner's insurance policy.

If these obligations are not met, the owner could be in default, and would be in danger of the loan being called up.

On the death of the home owner, the property is sold, and the loan amount plus interest repaid.

The balance is then paid over to the heirs. The executor could equally repay the loan provider from other assets in the estate, if the heirs want to keep the home.

If for some reason the sale proceeds from the home after death do not cover the full loan amount, then the financial institution takes the risk and has no

recourse against the estate.

Before taking this avenue, one needs to look at all your available options and ensure you understand all the advantages and disadvantages.

The cost of borrowing is not cheap compared with that of conventional mortgages, although the comparison is possibly a little unfair as banks will not grant conventional mortgages to most senior citizens.

So if you have an alternative source of funds, then that may be a better option.

This type of product will diminish the inheritance left to your dependants and should be approached carefully and with thorough consultation.

For those who are interested, please discuss with a financial adviser as well as your close family members.

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